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Policy Fees for Surplus Lines

The need for a policy fee is based upon the structure of the Surplus Lines industry, as they pay the Managing General Agency (Surplus Lines Producing Agent) a commission based upon the premium size. The retained revenue is generally 10% (gross commission is 20% and is split with the producing producer).

As eligible unauthorized carriers, the rates are not filed. Most accounts are rated based upon the risk itself and a great deal of judgment. Most carriers have a minimum premium of \$750. Therefore, a large number of accounts generate revenue of \$75 or less. As the entity involved in receiving the applications, quoting, binding, preparing, issuing and sending out the policy, we lose money on a great number of accounts. Our annual average cost to service each account is \$185.

The solution for many is one of two:

1. Decline small accounts or provide minimal service to steer them to a competitor
2. Increase the minimum premium to cover the cost of servicing the account. In the above example the premium would have to be increased to \$1,850 to cover the costs.

The idea of a policy fee is confusing, and one that many see as a detriment to the insured. However, contrary to this theory, the insured and the servicing Managing General Agency (Surplus Lines Producing Agent) would both be better served by allowing a small, reasonable policy fee.

The use of a fee would enhance the competition to insure small accounts, and have little (if any) effect on larger premium accounts.

Policy Fee Example:

Below reflects what the consumer would have to pay in order for the surplus lines producing agent to retain \$185 (the cost to service an account).

<u>With Policy Fee</u>			<u>Without Policy Fee</u>		
	<i>Cost to Consumer</i>	<i>Producing Agent's Commission</i>		<i>Cost to Consumer</i>	<i>Producing Agent's Commission</i>
Premium	\$750	\$75	Premium	\$1850	\$185
Policy Fee	\$110 100	\$110 100	Policy Fee	\$0	\$0
Total Premium	\$860	\$185	Total Premium	\$1850	\$185

In this example, the surplus lines producing agent's commission is equal in both cases. However without a policy fee, the cost to the consumer is \$990 more.